

SIMPLY STATED,

**IN 2000 WE MET
OR EXCEEDED EVERY
GOAL WE SET.**

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Based in San Diego, California, **SEMPRA ENERGY** is a Fortune 500 corporation with 12,000 employees, serving the largest customer base of any energy services company in the United States. The Sempra Energy group of companies provides an integrated package of energy-related products and services. Sempra Energy common shares trade on the New York Stock Exchange under the symbol "SRE." The company's Web site address is www.sempra.com.

FINANCIAL HIGHLIGHTS

At December 31 or for the years then ended

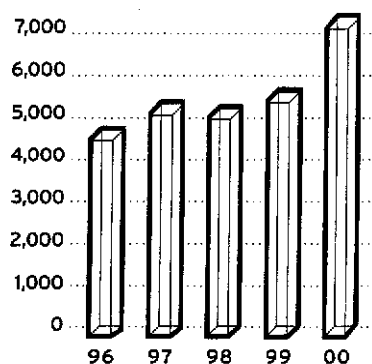
(Dollars in millions, except per-share amounts)

	2000	1999	Change
CONSOLIDATED FINANCIAL DATA			
Revenues and Other Income	\$ 7,143	\$ 5,410	32.0%
Net Income	\$ 429	\$ 394	8.9%
Net Income Per Share of Common Stock:			
Basic and Diluted	\$ 2.06	\$ 1.66	24.1%
Diluted, Excluding Business Combination Costs	\$ 2.06	\$ 1.72	19.8%
Weighted Average Number of			
Common Shares Outstanding (diluted, in millions)	208.3	237.6	-12.3%
Total Assets	\$15,612	\$ 11,124	40.3%
Common Dividends Declared Per Share	\$ 1.00	\$ 1.56	-35.9%
Dividend Payout Ratio	48.5%	94.0%	-48.4%
Debt to Total Capitalization	59.2%	50.4%	17.5%
Book Value Per Share	\$ 12.35	\$ 12.58	-1.8%
STATISTICS			
Natural Gas Throughput ^(a) (in billions of cubic feet)	1,131	1,004	12.6%
Average Cost of Natural Gas Purchased ^(a) (per thousand cubic feet)	\$ 3.51	\$ 2.33	50.6%
Electric Energy On-System Sales ^(a) (in billions of kilowatt hours)	18.4	17.9	2.8%
Average Cost of Electric Energy ^(a) (per kilowatt hour)	8.37¢	3.26¢	157%
Number of Customers^(a) (in millions of meters served)			
Natural Gas	5.8	5.7	1.8%
Electricity	1.2	1.2	-
Return on Common Equity			
Sempra Energy	15.7%	13.4%	17.2%
SoCalGas	16.0%	15.2%	5.3%
SDG&E	12.2%	15.8%	-22.8%
Number of Employees ^(b)	11,232	11,248	-0.1%

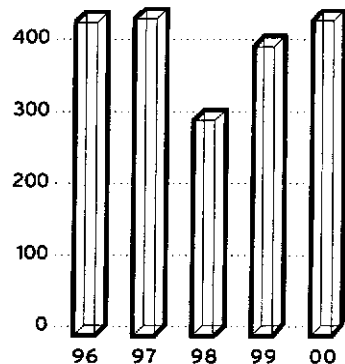
(a) California utilities.

(b) Excludes contract and part-time employees.

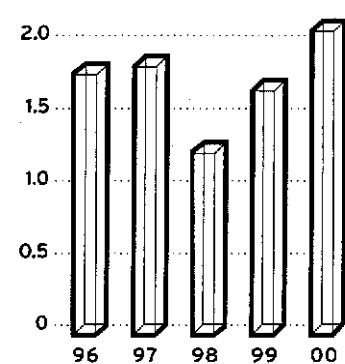
OPERATING REVENUES
(dollars in millions)



NET INCOME
(dollars in millions)



EARNINGS PER SHARE
(dollars)



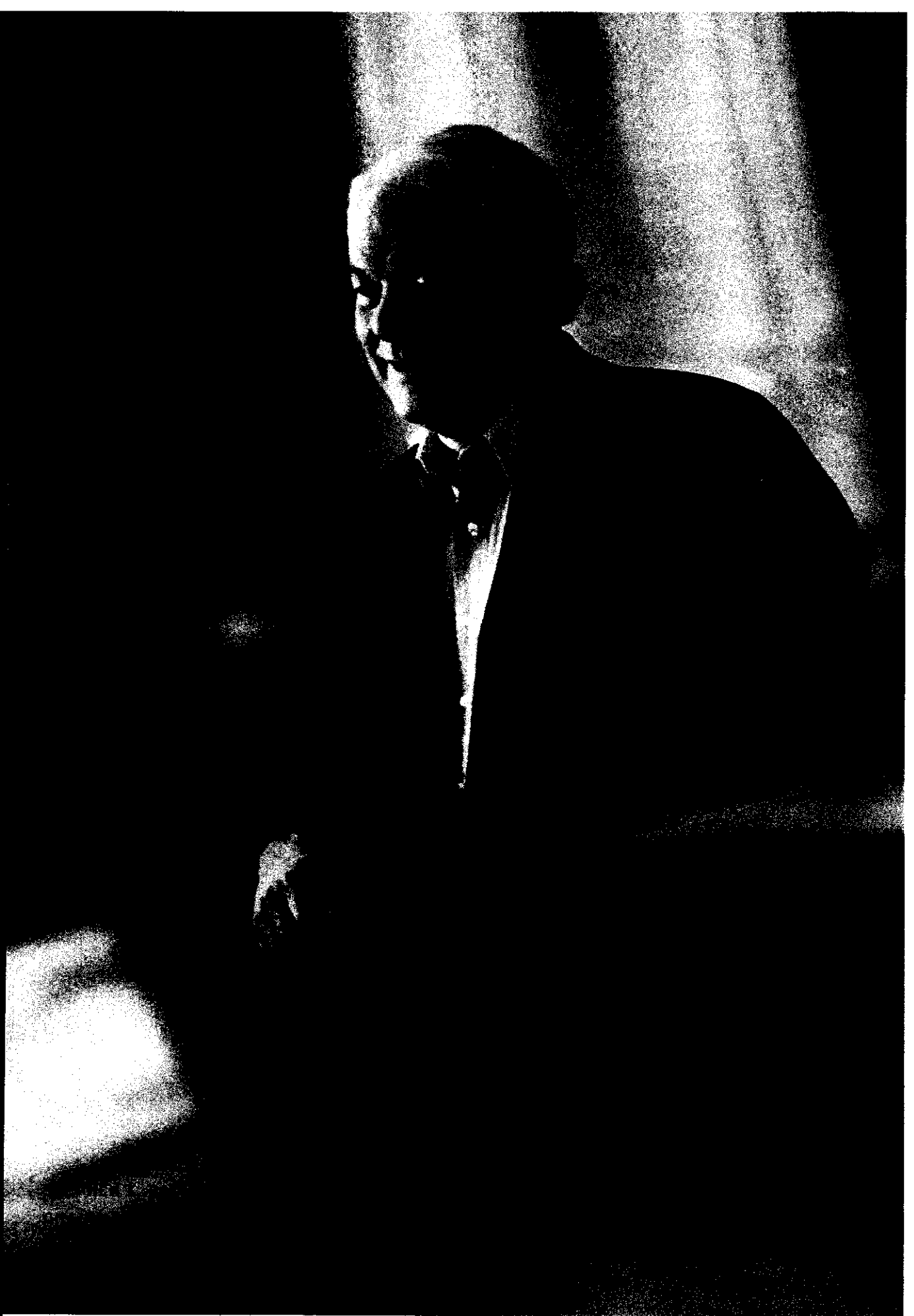
FELLOW SHAREHOLDERS

2000 was a strong year for Sempra Energy. During the course of the past 12 months, we have seen tangible results from three years of effort to develop a diversified energy services company outside of our two regulated California utilities.

We exceeded our financial goals for the year, increasing overall earnings per share by approximately 20 percent – surpassing our three-year-average target of 8- to 10-percent annual growth. We returned a dividend consistent with our mix of delivery and growth businesses. Amidst the turmoil of California's energy crisis, we even maintained strong investment-grade credit ratings – no small achievement.

2000 was the year in which our intellectual capital began to bear fruit; a year in which the company accomplished what it set out to do.

We expanded our wholesale energy trading and retail energy marketing businesses and developed generation assets to support them. We continued pursuing new opportunities both in the United States and abroad. We also assumed a leadership role with respect to the ongoing energy crisis in our home state. I will address this important issue in greater detail later in this report.



Sempra Energy

**that we
would realize one-third
of earnings from our
unregulated businesses
by 2003.**

EXPANDING OUR HORIZONS



"IN 2000, WE WITNESSED THE STAGGERING PACE OF CHANGE, CHALLENGE AND OPPORTUNITY IN THE ENERGY MARKETS SEMPRA ENERGY TARGETS. WE ARE PROUD TO SAY WE HAVE RESPONDED SUCCESSFULLY."

– Donald E. Felsing (right), Group President, Sempra Energy Global Enterprises. Pictured with Darcel L. Hulse, Senior Vice President, Sempra Energy.

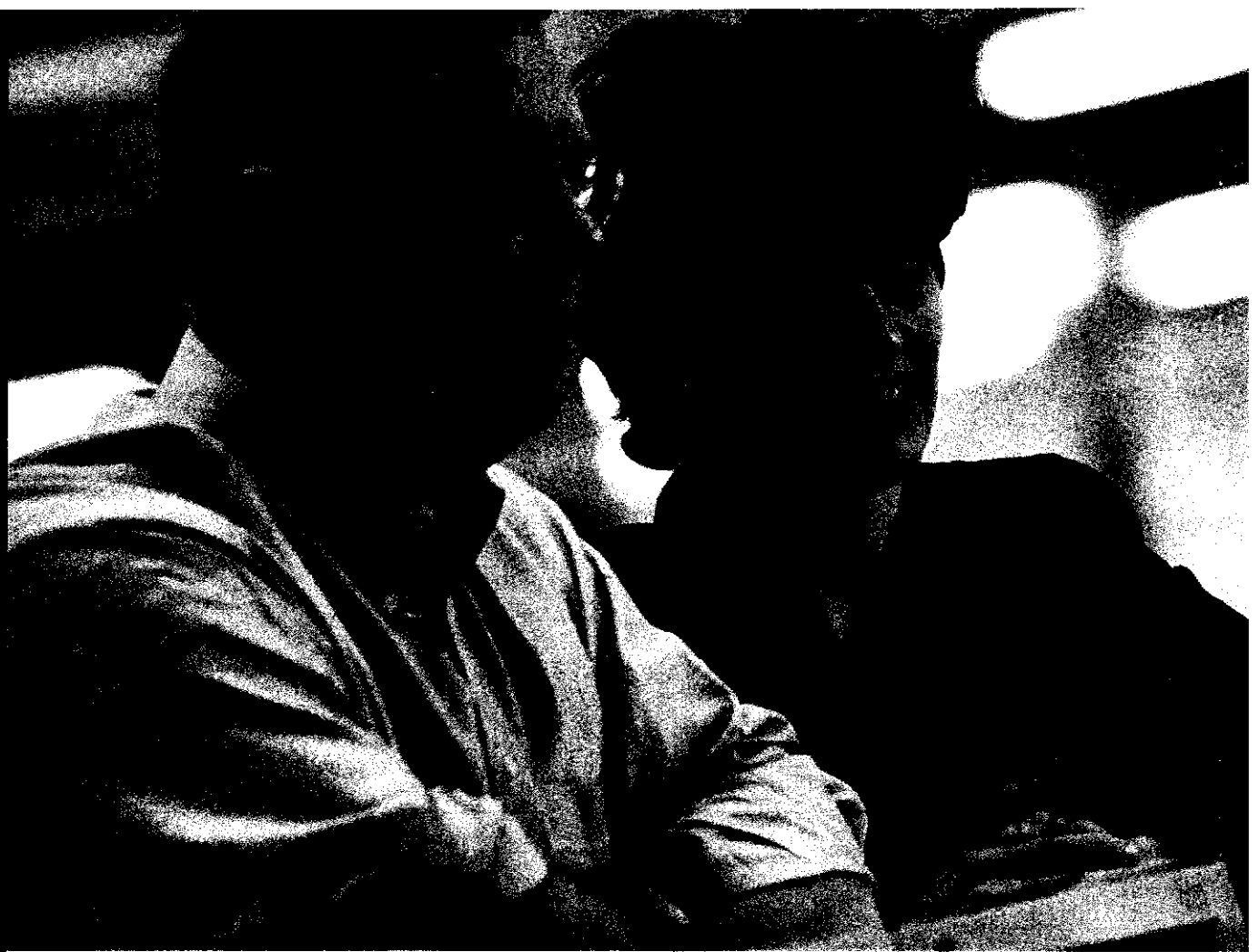
Sempra Energy International, together with its Mexican partner, Próxima Gas, S.A. de C.V., expanded its Mexican gas distribution properties in Mexicali, Chihuahua and La Laguna-Durango and this year will commence construction of a major natural gas pipeline across northern Baja California. Sempra Energy International will continue to balance its portfolio of companies among existing businesses with continued high growth potential in Argentina, Chile and Peru. The company also continues to develop new gas distribution projects in Mexico and Canada that are beginning to demonstrate their overall potential.

Finally, with information technology a central element for developing new and innovative products and services, Sempra Energy's technology ventures are providing more information, more control and more solutions to increasingly sophisticated customers.

I invite you to read on for a more detailed explanation of our operational successes.

**that our trading
operations would achieve net
income of \$15 million and
expand in key world markets.**

POWERING GROWTH



"OUR ABILITY TO SUCCEED IS BASED ON CREATIVITY, PERSISTENCE AND A STAUNCH COMMITMENT TO MEETING OUR CUSTOMERS' RISK-MANAGEMENT NEEDS."

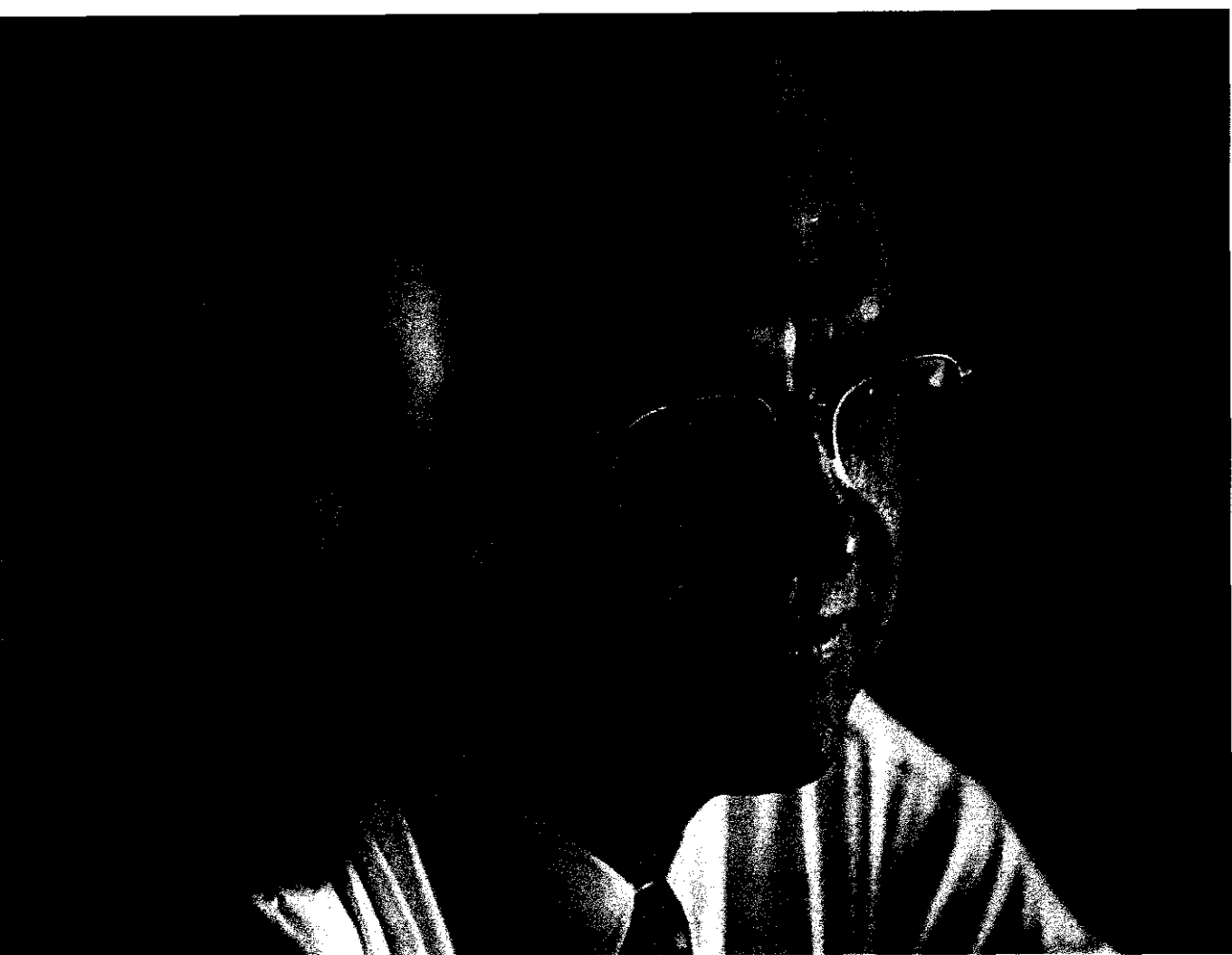
- David A. Messer (left), President, Sempra Energy Trading. Pictured with **Jacqueline Mitchell**, Managing Director, Sempra Energy Trading.

None of these achievements would have been possible without the company's customer-driven approach and its disciplined emphasis on quality and profitability rather than quantity. Sempra Energy Trading focuses its operation and takes pride in the fact that it has a value-at-risk (VaR) index that is among the lowest in the industry – meaning that the company has few equals in maintaining a low-risk trading portfolio.

Sempra Energy Trading continues to develop. It is looking to expand its activities into new areas – including the trading of liquified natural gas, where it already has significant expertise. With the volatility of the energy markets not expected to change materially in the near term, Sempra Energy Trading should continue to enjoy healthy earnings in 2001.

**that we would
develop or acquire
generation to support our
overall growth strategy.**

THE NEXT GENERATION



"WITH STRONG MARKET GROWTH, ACCESS TO MULTIPLE MARKETS, AND FUEL AND TRANSMISSION COST ADVANTAGES, WE ARE WELL POSITIONED TO BE AMONG THE MOST COMPETITIVE GENERATORS OF ELECTRICITY."

- Michael R. Niggli, President, Sempra Energy Resources

These new power plants employ state-of-the-art technology at least 30 percent more efficient than that used in today's aging plants, many of which are unable to keep up with rising electric demand and more rigid air-quality standards. The new plants have other, distinct advantages as well. Mesquite Power is ideally situated next to the Palo Verde hub and switchyard, offering direct access to the voracious Arizona and California power markets. And, because the Elk Hills project is a joint venture with Occidental Petroleum, it offers Sempra Energy Resources the significant financial advantage of being able to use "on-site" natural gas without being subject to normal border-delivery charges for gas.

Sempra Energy Resources has been successful in rapidly transforming itself from a small start-up operation two years ago into what will be a supplier of almost 4,000 new megawatts of electricity by the end of 2004.

**that our retail
energy services business
targeting regional commercial
and industrial markets
would show dramatic
revenue growth.**

SOLUTIONS OF CHOICE



"OUR APPROACH IS SIMPLE: WHERE WE HAVE REGIONAL STRENGTH AND TARGETED INDUSTRY EXPERTISE, WE GIVE OUR CUSTOMERS GREATER CONTROL OF COMMODITY PRICING AND ENERGY INFRASTRUCTURE."

- Robert N. Dickerman (right), President, Sempra Energy Solutions. Pictured with Erbin B. Keith (left) and Gary Hessenauer, both Senior Vice Presidents of Sempra Energy Solutions.

Last year, we agreed to sell our 72.5-percent stake in mass-market retailer Energy America to Centrica, plc for \$56 million. Energy America sells electricity or natural gas to nearly 400,000 residential and small-business customers in five states. This transaction, which was completed in January of this year, has enabled us to unlock additional value for shareholders, boosting 2001 earnings by a projected 10 cents per share.

Looking ahead, Sempra Energy Solutions will continue to pursue an ambitious agenda. Within the next three years, it aims to be one of the top energy service companies in the commercial and industrial market, reaching \$2 billion in revenue. To accomplish this, it will continue to expand its sales organization and marketing efforts to grow in target industry segments.

**that net income
from international operations
would reach \$25 million and
that we would expand
distribution systems located
in high-growth markets.**

REACHING OUT



"WE HAVE EXPANDED FROM FOUR BUSINESSES IN TWO COUNTRIES IN 1998 TO 13 PROJECTS IN SEVEN COUNTRIES IN 2000 WITH \$1.2 BILLION IN ASSETS – TODAY SERVING NEARLY 2.6 MILLION CUSTOMERS."

– Dennis V. Arriola (left), Regional President, South American Operations, Sempra Energy International. Pictured with George S. Liparidis, Regional President, North American Operations, Sempra Energy International.

Given its knowledge of these contiguous geographies and cultures, Sempra Energy International chose to focus its efforts largely on the Americas, rather than in far-flung corners of the world. Indeed, its familiarity with doing business in the Americas aids in partnering with regional governments to develop successful businesses.

Moving forward in 2001, Sempra Energy International's goals are to grow its existing businesses, capture adjacent opportunities and, where appropriate, cross-sell other energy-related and communications services from the Sempra Energy companies.

We stated

Sempra Communications was formed in 2000 to provide information solutions through partnerships with leading technology companies. In April 2000, the group's unique mix of energy expertise and information-technology experience led Aerie Networks to select Sempra Communications as a partner in its 12-member joint venture to build a new high-bandwidth, 20,000-mile, nationwide broadband network.

In June 2000, Sempra Communications was granted authority to provide competitive local exchange telephony services in California, allowing the company to explore a variety of new, telecommunications-based business ventures. In addition, over the past year, Sempra Communications contributed its expertise in support of Sempra Energy Solutions' systems design projects for the burgeoning data-center and Web-hosting markets. These "information warehouses," which store equipment and data for the ever-increasing Internet and e-business needs of large corporations, pose unique challenges for the safe, secure transmission of power and information.

Also in the information management arena, our Soliance joint venture is creating Web-based information technology systems for small- and mid-sized natural gas and electric utilities adapting to deregulated markets nationwide. The company offers rapid delivery, lower up-front capital costs and fixed-price, fixed-time solutions in the Application Services Provider marketplace.



"SUCCESSFUL PARTNERING IN NEW TECHNOLOGY VENTURES TAKES EXPERIENCE, ASSETS AND A DISCIPLINED APPROACH TO INVESTING – THESE ARE THE QUALITIES BY WHICH WE JUDGE OUR SUCCESS."

– **Michael W. Allman**, President, Sempra Communications

Soliance secured important contracts in 2000, including agreements with City Public Service, the municipally owned gas and electric utility serving San Antonio, Texas, as well as with Sempra Atlantic Gas, Centrica, plc and Energy America. Additionally, Soliance was recognized last year for the excellence of its operations by AMR Research, a leading industry research firm.

We continue to identify more high-technology opportunities, leveraging our valuable intellectual capital and entrepreneurial drive to secure strong investments in promising early-stage businesses.

SPECIAL FOCUS:

THE ENERGY CRISIS AND OUR CALIFORNIA UTILITIES

We stated that our utilities would deliver safe, reliable service – even in what proved to be a very challenging environment.

MANAGING IN CRISIS I would like to address the key issues in this crisis, as well as the solid performance of our two utilities, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric (SDG&E).

First, some history is in order. In July 1999, the California Public Utilities Commission determined SDG&E had completed the recovery of its stranded costs under California's 1996 electric restructuring law. This meant that the rate freeze was lifted for SDG&E customers in San Diego and southern Orange counties. When the wholesale price of power spiked last summer, SDG&E customers were the first in the country to feel the full brunt of the volatile wholesale electricity market.

Amidst the hardship and turmoil the energy crisis caused SDG&E's customers, its employees never lost sight of their commitment to providing safe and reliable energy-delivery service. In a year of undeniable challenge, both SDG&E and SoCalGas met or exceeded their goals for service and reliability. I am extremely proud of these accomplishments.

In fact, 2000 was a landmark year for SoCalGas in the face of unprecedented demand and rising natural gas costs. It became the first U.S. utility to connect its 5 millionth meter, set a record for gas throughput and changed its entire operation to deliver more gas to fuel California's power plants as they struggled to keep pace with California's electricity needs.

At the heart of the dysfunctional electric market is an imbalance of supply and demand. In California, no major



"WE MUST RECOGNIZE THAT AT THE CORE OF OUR ENERGY PROBLEMS IS A CRITICAL SHORTAGE OF REASONABLY PRICED POWER TO MEET TODAY'S DEMANDS. ANY FIX THAT DOES NOT ADDRESS THE LACK OF SUPPLY WILL FAIL."

- Edwin A. Guiles, Group President, Regulated Business Units. Pictured with Debra L. Reed, President of SDG&E.

new power plants have been brought online in the past decade, a period during which the state's electric demands have grown 14.5 percent, according to the California Energy Commission. Energy demand in neighboring states has grown even faster, resulting in those states no longer having excess power to export.

Consumers have a critical role to play as well. While supply is a problem, all of us need to conserve. Technology advances also can help curb demand - real-time electric metering would provide accurate price signals and encourage efficient energy use.

Californians must begin to see the true cost of electricity. When energy prices soared last summer, the state set a new retail rate cap for SDG&E customers at 6.5 cents per kilowatt-hour. These charges that consumers see are one-third or less of the *actual* wholesale price SDG&E paid for the electricity. At the end of January 2001, this "undercollected" balance reached \$605 million. SDG&E has a legislative guarantee that it will be able to recover its prudently incurred power costs after the rate cap ends in 2002 or 2003.

In February, a new state law was enacted giving California's Department of Water Resources authority to buy power on behalf of SDG&E, PG&E and Southern California Edison. This change should keep SDG&E's undercollection from expanding, as long as the state continues to procure enough energy to meet SDG&E's full power needs.

At this critical juncture, our focus should be on two questions: What will reduce demand for power? What will increase power supplies? This problem will be solved only by addressing these fundamental questions.

**that the year 2000 would be
just the beginning.**

Despite its challenges, 2000 has been a successful year on many different levels. In addition to the milestones already mentioned in this report, we are equally proud of the ways in which we have enriched our corporate culture.

The corporation becomes stronger by building a workforce and a network of suppliers that reflect the diversity of the communities in which we operate. To that end, we were extremely pleased to have been recognized in 2000 for our successful corporate diversity programs.

In July 2000, we earned the No. 4 spot on *Fortune* magazine's list of "America's 50 Best Companies for Minorities," marking the company's third consecutive year among the top five of this prestigious grouping. The ranking was based on Sempra Energy's efforts in 15 different categories, including hiring, promoting and retaining people of ethnic diversity, as well as outreach to minority suppliers and charitable contributions.

In September, we were awarded the U.S. Department of Labor's Office of Federal Contract Compliance Programs' prestigious EVE (Exemplary Voluntary Efforts) Award for the quality of our affirmative action programs. This award is given to just a handful of U.S. organizations each year.

Satisfied though we may be with the year just past, there is still much work to do. As we look ahead, Sempra Energy will continue to set realistic goals – and meet them.

On behalf of the Board of Directors, I would like to thank you for your continued support.

Sincerely,

Chairman, President & Chief Executive Officer

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

This section includes management's discussion and analysis of operating results from 1998 through 2000, and provides information about the capital resources, liquidity and financial performance of Sempra Energy and its subsidiaries (together referred to as "the company"). This section also focuses on the major factors expected to influence future operating results and discusses investment and financing plans. It should be read in conjunction with the consolidated financial statements included in this Annual Report.

The company is a California-based Fortune 500 energy services company whose principal subsidiaries are San Diego Gas & Electric (SDG&E), which provides electric and natural gas service in San Diego County and southern Orange County, and Southern California Gas Company (SoCalGas), the nation's largest natural gas distribution utility, serving 5 million meters throughout most of Southern California and part of central California. Together, the two utilities serve approximately 7 million meters. In addition, Sempra Energy owns and operates other regulated and unregulated subsidiaries. Sempra Energy Trading (SET) is engaged in the wholesale trading and marketing of natural gas, power and petroleum. Sempra Energy International (SEI) develops, operates and invests in energy-infrastructure systems and power-generation facilities outside the United States. Sempra Energy Resources (SER) develops power plants and natural gas storage, production and transportation facilities within the United States. Sempra Energy Financial (SEF) invests in limited partnerships, which own 1,300 affordable-housing properties throughout the United States. Through other subsidiaries, the company owns and operates centralized heating and cooling for large building complexes, and is involved in domestic energy-utility operations and other energy-related products and services.

The uncertainties shaping California's electric industry and business environment significantly affect the company's operations. A flawed electric-industry restructuring plan, electricity supply/demand imbalances, and legislative and regulatory responses, including a temporary rate ceiling on the cost of electricity that SDG&E can pass on to its small-usage customers on a current basis, have materially and adversely affected the timing of revenue collections by SDG&E and related cash flows. These, together with concerns with California utility regulation generally and increased electricity cost undercollections, have significantly impaired the company's access to the capital markets and ability to obtain financing on commercially reasonable terms. In addition, supply/demand imbalances are affecting the price of natural gas in California more than in the rest of the country because of California's dependence on natural gas fired electric generation due to air-quality considerations. These recent developments are continuing to change rapidly. Information as of March 7, 2001, the date this report was prepared, is found herein, primarily under "California Utility Operations" and "Factors Influencing Future Performance" and in Note 14 of the notes to Consolidated Financial Statements.

BUSINESS-COMBINATION COSTS

Sempra Energy was formed to serve as a holding company for Pacific Enterprises (PE), the parent corporation of SoCalGas, and Enova Corporation (Enova), the parent corporation of SDG&E, in connection with a business combination that became effective on June 26, 1998 (the PE/Enova business combination). In connection with the PE/Enova business combination, the holders of common stock of PE and Enova became the holders of the company's common stock. The preferred stock of PE remained outstanding. The combination was a tax-free transaction. Expenses incurred in connection with the PE/Enova business combination were \$70 million, aftertax, for the year ended December 31, 1998. No significant expenses were incurred subsequently.

On February 22, 1999, the company and KN Energy, Inc. (KN) announced that their respective boards of directors had approved the company's acquisition of KN. On June 21, 1999, the company terminated its agreement to acquire KN. Expenses incurred in connection with the KN transaction were \$11 million, aftertax, all in the year ended December 31, 1999.

In January 1998, PE and Enova jointly acquired CES/Way International, Inc. (CES/Way), which was subsequently renamed Sempra Energy Services. Expenses incurred in connection with the CES/Way acquisition were \$15 million, aftertax, all in the year ended December 31, 1998.

The costs of the transactions discussed above and similar, smaller transactions consist primarily of employee-related costs, and investment banking, legal, regulatory and consulting fees. See Note 1 of the notes to Consolidated Financial Statements for additional information.

CAPITAL RESOURCES AND LIQUIDITY

The company's California utility operations have historically been a major source of liquidity. However, higher electric-commodity prices and the inability of SDG&E to bill its small-usage customers on a current basis for the full purchase cost of electricity due to legislative actions, have resulted in a significant decrease in cash flow available from SDG&E's operating activities in 2000. SDG&E had incurred costs in excess of amounts which it can bill its customers on a current basis, or "undercollected costs," of \$447 million at December 31, 2000, and \$605 million at January 31, 2001. California recently enacted legislation authorizing the California Department of Water Resources (DWR) to purchase electricity for resale to all California investor-owned utility retail end-use customers (including customers of SDG&E), that is intended to halt or substantially slow the growth of cost undercollections by SDG&E and other California Investor-Owned Utilities (IOUs). Consequently, SDG&E believes that its continued accumulation of undercollected costs will depend primarily upon the effects of this legislation and other legislative and regulatory developments. For additional discussion, see "California Utility Operations" herein and Note 14 of the notes to Consolidated Financial Statements.

Additional working capital and other requirements for the California utilities are met primarily through the issuance of long-term debt. Cash requirements at the utilities primarily consist of capital expenditures for utility plant. The company's nonutility cash requirements include additional investments in SET, SEI, SER and other ventures. These requirements are met through the issuance of short-term and long-term debt by the company or its subsidiaries, as well as from cash flow generated from growing nonutility operations. Due to the factors described herein and in Note 14 of the notes to Consolidated Financial Statements regarding high electricity costs, and the company's inability to bill its small-usage customers on a current basis for the full cost of electricity purchases, management is unable to determine whether the sources of funding described above are sufficient to provide for all of the capital expenditures it otherwise would intend to make, after funding its basic liquidity needs, as described below.

Continued purchases by the DWR for resale to SDG&E's customers of substantially all of the electricity that would otherwise be purchased by SDG&E (as further discussed under "California Utility Operations" herein) or dramatic decreases in wholesale electricity prices, favorable action by the CPUC on SDG&E's electric-rate-surcharge application discussed below and SDG&E's access to the capital markets are required to manage and finance SDG&E's cost undercollections and provide adequate liquidity.

Other company subsidiaries have significant receivables from the other IOUs and from the California Power Exchange (PX) and the Independent System Operator (ISO), which are described under "California Utility Operations." The collection of these receivables may depend on satisfactory resolution of the financial difficulties being experienced by those IOUs as a result of the California electric-industry problem discussed above. In addition, the company's ability to fund its subsidiaries' capital expenditure program and liquidity requirements is significantly affected by the company's credit ratings and related ability to obtain financing on commercially reasonable terms.

CASH FLOWS FROM OPERATING ACTIVITIES

The decrease in cash flows from operating activities in 2000 was primarily due to increased net trading assets, SDG&E's refunds to customers for surplus rate-reduction-bond proceeds, SDG&E's cost undercollections related to high electric-commodity prices and energy charges in excess of the 6.5 cents/kWh ceiling in accordance with AB 265 (see "California Utility Operations" below and Note 14 of the notes to Consolidated Financial Statements) and increased accounts receivable. These factors were partially offset by higher overcollected regulatory balancing accounts at SoCalGas, increased accounts payable and lower income tax payments. The increases in accounts receivable and accounts payable were primarily due to higher sales volumes and higher prices for natural gas and purchased power.

The decrease in cash flows from operating activities in 1999 was primarily due to the completion of the recovery of SDG&E's stranded costs in 1999 and to reduced revenues (both the result of the sale of SDG&E's fossil power plants and combustion turbines in the second quarter of 1999) and a return to ratepayers of the previously overcollected regulatory balancing accounts of SoCalGas. This decrease was partially offset by the absence of business-combination expenses and lower income tax payments in 1999. See additional discussion on the sale of the power plants in Note 14 of the notes to Consolidated Financial Statements.

CASH FLOWS FROM INVESTING ACTIVITIES

For 2000, cash flows from investing activities included capital expenditures for utility plant and investments in South America.

For 1999, cash flows from investing activities included proceeds from the sale of SDG&E's two fossil power plants and combustion turbines. The South Bay Power Plant was sold to the San Diego Unified Port District for \$110 million. The Encina Power Plant and 17 combustion-turbine generators were sold to Dynegy, Inc. and NRG Energy, Inc. for \$356 million.

CAPITAL EXPENDITURES Capital expenditures were \$170 million higher in 2000 compared to 1999 due to investments in gas distribution facilities in the eastern United States, Canada and Mexico, expenditures for gas turbines, and improvements to SDG&E's electric distribution system and to the California utilities' gas systems.

Capital expenditures were \$151 million higher in 1999 compared with 1998 due to investments in gas distribution facilities in Mexico, a gas system expansion at SDG&E and improvements to SDG&E's electric distribution system.

Capital expenditures in 2001 are expected to be comparable to those of 2000. They will include, among other things, capital expenditures for new power plant construction by SER and utility plant improvements. Capital expenditures for power plant construction are intended to be financed by debt issuances. The California utilities' capital expenditures are intended to be financed primarily by operations and debt issuances. SDG&E's capital expenditures are dependent on SDG&E's ability to recover its electricity costs, including the balancing account undercollections referred to above.

SER plans expenditures of up to \$1.9 billion over the next five years related to new power plant construction.

INVESTMENTS During the three years ended December 31, 2000, the company made various investments and entered into several joint ventures. These include, among others, SEI's additional investment in two Argentinean natural gas utility holding companies (*Sodigas Pampeana S.A.* and *Sodigas Sur S.A.*) of \$147 million in October 2000. In August 2000, Sempra Energy Solutions (SES) purchased Connectiv Thermal Systems' 50-percent interests in both Atlantic-Pacific Las Vegas and Atlantic-Pacific Glendale for \$40 million, thereby acquiring full ownership of these companies. In September 2000, the company acquired a majority interest in Atlantic Electric and Gas in the United Kingdom for \$8 million and, in July 1998, purchased a subsidiary of Consolidated Natural Gas for \$36 million.

In June 1999, SEI and PSEG Global (PSEG) jointly purchased 90 percent of *Chilquinta Energía S.A. (Energía)* at a total cost of \$840 million. With the January 2000 joint purchase of an additional 9.75 percent, the companies jointly and equally hold 99.98 percent of *Energía*. In September 1999, the company and PSEG completed their acquisition of 47.5 percent of *Luz del Sur S.A.A.* SEI's share of the transaction was \$108 million. This acquisition, combined with the interest already owned through *Energía*, increased the companies' total joint and equal ownership to 84.5 percent of *Luz del Sur S.A.A.*

Sempra Energy's level of investments in the next few years may vary substantially and will depend on the availability of financing and business opportunities that are expected to provide desirable rates of return.

See further discussion of international operations in "International Operations" below and further discussion of investing activities in Note 3 of the notes to Consolidated Financial Statements.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash was provided by financing activities in 2000 compared to being used in 1999, due to the issuance of long-term and short-term debt in 2000 (excluding that related to the repurchase of common stock), and lower common stock dividends.

Net cash used in financing activities decreased in 1999 from 1998 levels primarily due to lower long-term and short-term debt repayments, greater long-term and short-term debt issuances and the repurchase of preferred stock in 1998.

LONG-TERM AND SHORT-TERM DEBT In 2000, the company issued \$500 million of long-term notes and \$200 million of mandatorily redeemable trust preferred securities to finance the repurchase of 36.1 million shares of its outstanding common stock. The company issued an additional \$300 million of long-term notes during 2000 to reduce short-term debt. The increase in short-term debt primarily represents borrowings through Sempra Energy Global Enterprises (Global), a holding company for many of the company's subsidiaries, to finance the construction of gas distribution systems by SEI; and borrowings by SET to finance increased trading activities. Repayments on long-term debt in 2000 included \$10 million of first-mortgage bonds, \$65 million of rate-reduction bonds and \$51 million of unsecured debt. In addition, during December 2000, \$60 million of variable-rate industrial development bonds were put back by the holders and subsequently remarketed in February 2001 at a 7.0 percent fixed interest rate. Between January 24 and February 5, 2001, the company drew down substantially all (\$1.3 billion) of its available credit facilities.

In 1999, repayments on long-term debt included \$28 million of first-mortgage bonds, \$66 million of rate-reduction bonds and \$82 million of unsecured notes. The long-term debt issued in 1999 related primarily to the purchase of *Energía*. See additional discussion in Note 3 of the notes to Consolidated Financial Statements. The increase in short-term debt primarily represents borrowing through Global to finance a portion of SEI's acquisitions.

In 1998, cash was used for the repayment of \$247 million of first-mortgage bonds and \$66 million of rate-reduction bonds. Short-term debt repayments included repayment of \$94 million of debt issued to finance SoCalGas' Comprehensive Settlement as discussed in Note 14 of the notes to Consolidated Financial Statements.

STOCK PURCHASES AND REDEMPTIONS As noted above, the company repurchased 36.1 million shares of its common stock at a price of \$20.00 per share in 2000. In March 2000, the company's board of directors authorized the optional expenditure of up to \$100 million to repurchase additional shares of common stock from time to time in the open market or in privately negotiated transactions. Through December 31, 2000, the company acquired 162,000 shares under this authorization (all in July 2000). In 1998 the company repurchased \$1 million of common stock. There were no common stock repurchases in 1999.

On February 2, 1998, SoCalGas redeemed all outstanding shares of its 7.75% Series Preferred Stock at a cost of \$25.09 per share, or \$75 million including accrued dividends.

DIVIDENDS Dividends paid on common stock amounted to \$244 million in 2000, compared to \$368 million in 1999 and \$325 million in 1998. The decrease in 2000 is due to a reduction in the quarterly dividend to \$0.25 per share (\$1.00 annualized rate) from its previous level of \$0.39 per share (\$1.56 annualized rate) and the previously mentioned stock repurchase. The increase in 1999 was the result of the company's paying dividends on its common stock at the rate previously paid by Enova, which, on an equivalent-share basis, is higher than the rate previously paid by PE.

The payment of future dividends and the amount thereof are within the discretion of the company's board of directors. The California Public Utilities Commission's (CPUC) regulation of the California utilities' capital structure limits to \$924 million the portion of the company's December 31, 2000, retained earnings that is available for dividends.

CAPITALIZATION Total capitalization at December 31, 2000, was \$7.1 billion. The debt-to-capitalization ratio was 59 percent at December 31, 2000. Significant changes in capitalization during 2000 include the increase in long-term debt and the issuance of mandatorily redeemable trust preferred securities to repurchase common stock.

CASH AND CASH EQUIVALENTS Cash and cash equivalents were \$637 million at December 31, 2000. This cash is available for investment in domestic and international projects consistent with the company's strategic direction, the retirement of debt, the repurchase of common stock, the payment of dividends and other corporate purposes. However, as discussed above, funds available for these purposes may be limited by SDG&E's ability to recover from its customers on a current basis the full amount of the high electricity prices.

If the impacts of the high electricity costs and the company's inability to bill customers for these costs on a current basis are favorably resolved, the company anticipates that operating cash required in 2001 for common stock dividends and debt payments will be provided by cash generated from operating activities and existing cash balances. Cash required for capital expenditures will be provided by cash generated both from operating activities and from long-term and short-term debt issuances.

In addition to cash generated from ongoing operations, the company has credit agreements that permit short-term borrowings of up to \$2.2 billion, of which \$566 million is outstanding at December 31, 2000, and/or support its commercial paper. These agreements expire at various dates through 2002. Because of the ramifications of the high electric costs (as discussed in Notes 4 and 14 of the notes to Consolidated Financial Statements), between January 24 and February 5, 2001, the company drew down substantially all (\$1.3 billion) of its available credit facilities.

In December 2000, Semptra Energy and certain affiliates filed shelf registrations for public offerings of up to \$2.3 billion of certain securities guaranteed by Semptra Energy. As yet, no debt securities have been issued under these registration statements. For additional information see Notes 5 and 14 of the notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

SEASONALITY SDG&E's electric sales volume generally is higher in the summer due to air-conditioning demands. Both California utilities' natural gas sales volumes generally are higher in the winter due to heating demands, although that difference is lessening as the use of natural gas to fuel electric generation increases. Sales volumes of the company's South American affiliates are also affected by seasonality, but the timing of its increases and decreases is opposite of those in California since the seasons are reversed in the Southern Hemisphere.

2000 COMPARED TO 1999 Net income for 2000 increased to \$429 million, or \$2.06 per share of common stock, from \$394 million, or \$1.66 per share of common stock, in 1999.

The \$35 million increase in net income was primarily due to higher earnings achieved by SET and, to a lesser extent, SEI and SER. This increase was partially offset by lower income generated from the California utility operations and higher interest expense. The lower income at the California utilities resulted primarily from the \$50 million pretax write off described in Note 14 of the notes to Consolidated Financial Statements. See additional discussion in "California Utility Operations," "International Operations," "Trading Operations" and "Other Operations" below.

For the fourth quarter of 2000, net income was \$95 million, or \$0.47 per share of common stock, compared with \$105 million, or \$0.44 per share of common stock, for the fourth quarter of 1999. The decrease in earnings was primarily attributable to increased interest costs and income taxes, partially offset by higher earnings from the company's trading and generation operations. The increase in earnings per share was due to the decrease in weighted-average shares for the fourth quarter of 2000 in comparison to the corresponding period in 1999, partially offset by the lower net income.

In 2000, book value per share decreased to \$12.35 from \$12.58 in 1999, due to the repurchase of 36.1 million shares of common stock in February 2000, at a price higher than book value.

1999 COMPARED TO 1998 Net income for 1999 increased to \$394 million, or \$1.66 per share of common stock, from \$294 million, or \$1.24 per share of common stock, in 1998.

The increase was primarily attributable to higher net income at the California utilities as a result of the business-combination costs in 1998, and increased earnings from SET and, to a lesser extent, from SEF and SER.

In 1999, book value per share increased to \$12.58 from \$12.29 in 1998, primarily due to the settlement of quasi-reorganization issues. See additional discussion in Note 2 of the notes to Consolidated Financial Statements.

CALIFORNIA UTILITY OPERATIONS

To understand the operations and financial results of SoCalGas and SDG&E, it is important to understand the ratemaking procedures that they follow.

SoCalGas and SDG&E are regulated by the CPUC. It is the responsibility of the CPUC to determine that utilities operate in the best interests of their customers and have the opportunity to earn a reasonable return on investment. In 1996, California enacted legislation restructuring California's investor-owned electric utility industry. The legislation and related decisions of the CPUC were intended to stimulate competition and reduce electric rates. The PX served as a wholesale power pool and the ISO scheduled power transactions and access to the transmission system.

A flawed electric-industry restructuring plan, electricity supply/demand imbalances, and legislative and regulatory responses, including the rate ceiling as described in "Factors Influencing Future Performance" below, have materially and adversely affected the timing of revenue collections by the company and related cash flows. Additional legislation passed in early 2001, as well as future legislation and regulatory actions concerning California's energy crisis, could have a significant impact on SDG&E's future operations, liquidity and financial results.

The natural gas industry experienced an initial phase of restructuring during the 1980s by deregulating natural gas sales to noncore customers. The CPUC currently is studying the issue of restructuring for sales to core customers and, as mentioned above, supply/demand imbalances are affecting the price of natural gas in California more than in the rest of the country because of California's dependence on natural gas fired electric generation due to air-quality considerations.

In connection with restructuring of the electric and natural gas industries, SDG&E and SoCalGas received approval from the CPUC for Performance-Based Ratemaking (PBR). Under PBR, income potential is tied to achieving or exceeding specific performance and productivity measures, rather than to expanding utility plant in a market where a utility already has a highly developed infrastructure.

See additional discussion of these situations under "Factors Influencing Future Performance" and in Note 14 of the notes to Consolidated Financial Statements.

The tables below summarize the California utilities' natural gas and electric volumes and revenues by customer class for the years ended December 31, 2000, 1999 and 1998.